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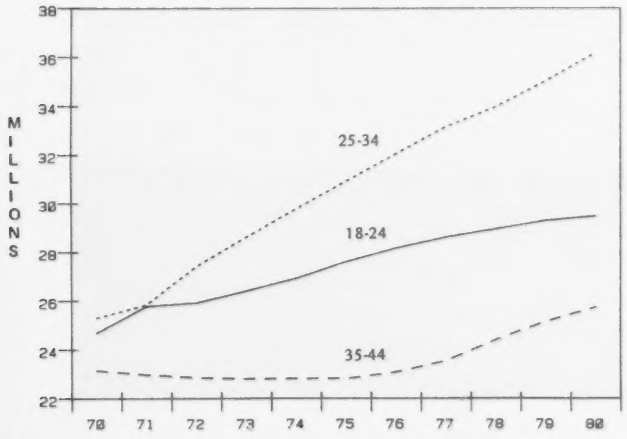
The "Baby Boom" Comes Of Age . . .

The effects of the post-World War II "baby boom" are being felt once again, as the baby boom babies marry and have their own children. This generation, now primarily concentrated in the 25 to 34 year-old age bracket, is the fastest growing segment of the population (see chart). Its share has increased to almost 17 per cent of the total population, compared with only 12.3 per cent ten years ago.

By 1985, this age group will add another 3.7 million members, or about ten per cent, to its ranks—a rate of increase twice as great as that for the total population. This has and will continue to have a profound impact on a variety of industries, but especially housing and housing-related durables, since this age bracket represents a prime house purchasing group. According to the U.S. League of Savings Banks, those households headed by someone between the ages of 25 and 34 bought almost one-half of all single family homes sold at the close of the last decade.

POPULATION TRENDS: 18 TO 24 AGE BRACKET (LINE)
VS. 25 TO 34 AGE BRACKET (DOT)
VS. 35 TO 44 AGE BRACKET (DASH)



At today's prices and mortgage interest rates, however, most potential first-time buyers cannot afford to buy. But if the past is any guide, the underlying demand for housing is mounting as buyers wait for interest rates to decline. Last spring and summer, each one percentage point drop in mortgage interest rates was associated with an approximately 100,000 unit rise in housing starts. Thus, if mortgage rates retreat once again, the demand for housing is expected to revive, giving a significant boost to new home construction and sales. With the new home will come increased expenditures for furniture, household appliances and other durables, all of which have been in a slump along with the housing industry.

. . . Auguring Well For Some Industries

The pent-up demand for housing may be intensified by the recent steady rise in the marriage rate. According to the National Center for Health Statistics, the number of marriages per 1,000 population was 10.9 in 1980, which was sharply above the 10.0 per 1,000 registered in 1976. The total number of people who were married in 1980—more than 4.8 million—was the largest on record, including the postwar peak in 1946. The average bride and groom are now older, have been working longer and therefore are probably more affluent. It is estimated that last year at least $12.5 billion was spent on weddings and wedding-related items.

Not only are more people marrying, there has been a noticeable increase in the fertility rate. After a protracted 20-year decline, the fertility rate (the number of babies born per 1,000 women 15-44 years old) bottomed out in 1976 and, after several false starts, has begun to rise again. Although the average family size continues to decline, many women who had postponed childbearing are having babies now. More young women in their thirties are having second thoughts about previous decisions not to have children, while others are opting for a family in addition to a career. Last year, 3.6 million babies were born, which was the highest yearly total in almost a decade.

This trend has already benefited manufacturers and retailers of maternity clothes, baby foods, drugs and childrens' clothing and furniture. In addition, many elementary schools, which were closed in the 1970s as the birth rate declined, may be able to reopen as early as the mid-1980s as enrollments begin to rise.

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The Housing Recovery Remains Stalled

Although the maturing of the "baby boom" generation may yet provide some relief for the depressed housing industry, the combination of lofty mortgage interest rates and new home prices continues to flatten residential construction and sales. Housing starts plunged a further 11 per cent in June compared with month-earlier levels to a seasonally adjusted annual rate of 1.03 million units. This level is more than 20 per cent below total housing starts in 1980. New single family home sales also nosedived during the month, falling more than 17 per cent below the May level to a seasonally adjusted annual rate of only 408,000 units. Not surprisingly, with builders experiencing significant difficulties selling homes already on the market, new building permits issued for future construction dropped 16.4 per cent in June month-over-month, to a seasonally adjusted annual rate of less than one million units.

The most formidable obstacle to a sustained turnaround in the housing market is affordability. With mortgage interest rates hovering near the 17 per cent level and the median sales price of new homes sold standing at $71,600 in June, an ever-larger proportion of households has been priced out of the new home market. Even with a down payment of approximately 25 per cent on the median-priced

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/29/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	131.687	– 1.597	+ 2.883
Loans to Depository Inst.	1.978	+ .248	+ 1.348
Float	3.462	+ .232	+ .106
Total Reserve Bank Credit	147.426	– 1.501	+ 8.922
Treasury Deposits with Federal Reserve Banks	3.063	– .043	– .143
Currency Outside Banks	123.437	– 2.305	+ 7.332
Member Bank Reserves:			
Required	40.895	– .455	+ .403
Excess (Deficiency)	.621	+ .291	+ .312
Total Reserves Held	41.516	– .164	+ .715
Net Borrowed Reserves	1.099	– .057	+ .786
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.116	+ .205	+12.870

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	361.3	– 5.4‡	– 4.0‡
M-1B	430.1	– 3.3‡	+ 7.8‡
M-2 (June '81)	1,749.1	+ 7.1	+ 10.1
L (April '81)	2,455.7	+ 7.9	+ 10.7

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 8/7/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.15%	15.10%	14.35%
* Federal Agencies	15.80	16.30	15.60
* Project Notes–Taxfree (46% Taxable Equivalent)	14.81	14.63	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	18.15	18.05	17.70

‡Finance Company Paper–Prime

5- 14 days	18.00%
15- 29 days	18.00
30- 59 days	19.50
60- 89 days	16.00
90-179 days	15.00
180-239 days	15.00
240-270 days	13.00

‡* Bankers' Acceptances

Sep.	17.80%
Oct.	17.30
Nov.	17.20
Dec.	17.00
Jan.	16.70
Feb.	16.50

‡Industrial Paper–Prime

30- 89 days	17.88%
90-120 days	17.40

†Federal Funds Effective Rate 18.55%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,881	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,509	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	– 1.9%	8.6%	– 9.9%
Change in Consumer Prices (all urban consumers)*	Jun '81	8.4%	8.4%	12.0%
Change in Producer Prices*	Jun '81	7.2%	4.8%	9.6%
Civilian Employment (Thousands of Persons)†	Jul '81n	98,962	98,392	96,999
Unemployment as % of Civilian Labor Force†	Jul '81n	7.0%	7.3%	7.6%
Personal Income*	Jun '81	$ 2,382	$ 2,368	$ 2,127
Leading Indicators Composite Index (1967=100)†	Jun '81n	133.8	135.5	123.9
Industrial Production Index (1967=100)†	Jun '81	152.7	152.8	141.5
Net Change in Consumer Installment Credit†	May '81	$ 1.35	$ 2.33	–$ 2.68
U.S. Merchandise Trade Balance†	Jun '81n	–$ 2.10	–$ 2.44	–$ 1.91
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	Jun '81	1,032	1,159	1,184
New Construction Expenditures*	Jun '81n	$ 236.2	$ 239.7	$ 218.5
Total Business Inventories†	May '81	$ 477.8	$ 474.6	$ 450.3
Total Business Sales†	May '81	$ 344.2	$ 345.7	$ 298.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

new home, principal and interest payments on a 30-year conventional mortgage contracted at 17 per cent would total about $785 per month, and absorb almost 45 per cent of gross median family income. One year ago, with average mortgage interest rates standing a shade above 13.25 per cent and the median-priced new home at $65,400, principal and interest payments would have totaled about $565 per month, absorbing slightly more than 30 per cent of gross median family income. Both levels are well above the traditionally prudent rule-of-thumb threshold of 25 per cent, and would soar even higher when property taxes and insurance are included.

Thus, the monthly principal and interest payment required to purchase a median-priced new home has jumped almost 40 per cent in the past year—a rate of rise more than three times the size of the gain in personal incomes during the period. As a result, the search for affordable housing has accelerated, especially among first-time home buyers. Mobile home shipments, for example, ran at a 255,000 unit seasonally adjusted annual rate in May, the latest month for which data are available (see chart on following page). Although this was 3.8 per cent below month-earlier levels, it was still a sizable 14 per cent above the calendar 1980 total. This stands in marked contrast with the trend in housing starts,

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/22/81)	124,412	+ 890	+34,063
New York City (7/22/81)	30,486	+ 846	+ 9,452
Commercial Paper (7/22/81)	155,593	+ 1,794	+31,553

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/22/81)	180,505	– 265	+22,026
New York City (7/22/81)	52,222	– 816	+ 5,324

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/22/81)	441,644	– 1,687	+48,369
New York City (7/22/81)	104,366	– 2,042	+16,148

Financial Markets

	Friday 8/7/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.02%	+ .57	+ 7.46
180-Day Bills†	16.58	+ .48	+ 7.92
Longest Bills†	16.41	+ .46	+ 7.77
Recent Issues:			
15⅞s 7/31/83	15.83	+ .23	
14s 6/30/85	15.41	– .34	
14⅞s 8/15/91	14.70	NA	
13⅞s 5/15/11	14.07	+ .20	
Municipals:			
Bond Buyer–20 Bond Index* (8/6/81)	11.63%	+ .19	+ 3.02
Blue List Total ($ Million)	$ 804	– $ 65	+ $ 15
30-Day Visible Supply ($ Million)	$2,217	+ $619	+ $ 220
Total	$3,021	+ $554	+ $ 235
Corporates:			
Moody's Aa Composite (8/6/81)	15.32%	+ .29	+ 3.40
30-Day Supply ($ Million)	$7,651	+ $150	+ $3,374
Stocks:			
Dow-Jones Averages:			
Industrials	942.54	– 9.80	– 12.15
Transportation	405.55	– 1.13	+ 89.38
Utilities	110.00	+ .41	– .37
65 Stocks	369.50	– 2.13	+ 25.80
Standard and Poor's 500 Stocks	131.75	+ .83	+ 8.14
N.Y.S.E. Composite Index	76.58	+ .63	+ 5.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	44,824	+ 2,666	– 5,954

* 45% Taxable equivalent 21.54%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/7/81	Week Ago
Overnight	18.75%	17.25%
1 month	19.06	18.63
3 month	19.13	18.75
6 month	19.06	18.75
1 year	18.00	17.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.00%	15.10%
Long Term (7 to 15 yrs.)	14.90	15.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/7/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02409	41.51
Canada	.8055	1.2414
Denmark	.1259	7.9453
France	.1650	6.0600
Germany	.3944	2.5355
Italy	.0007986	1252.20
Japan	.004210	237.55
Mexico	.04054	24.67
Netherlands	.3554	2.8135
Switzerland	.4575	2.1860
U.K.	1.7892	.5589

which in the same month ran at a seasonally adjusted annual rate 10.3 per cent below the total 1980 housing start level.

What is more, while the growth of new mortgage commitments has slowed dramatically, the growth of mobile home credit has accelerated. During the January-May, 1981 period, total credit extensions for the acquisition of mobile homes was almost 15 per cent above the amount extended during the last five months of 1980. This rate of growth compares with an almost 30 per cent decline in the level of new mortgage commitments extended by the nation's savings and loan associations between the same two periods.

LDC Debt Revisited

Last week's meeting of 22 foreign ministers in Mexico has again focused attention on the growing problem of the external indebtedness of the less developed countries (LDCs). This meeting, which established the agenda for the meeting of the heads of the 22 nations in October, gave a prominent place on that agenda to the issue of financing the LDC external debt.

Several factors have made the LDC debt burden particularly important this year. In addition to the growing size of the debt itself which is now estimated to be close to $500 billion, there is the problem of rising interest rates which increase the cost of servicing the debt. A substantial portion of the LDC's foreign liabilities, particularly the part owed to commercial banks, was borrowed under floating interest rates. These rates, usually adjustable every three or six months, rapidly reflect changes in international money market costs. This year, for example, the non-oil developing countries will pay an estimated $34 billion in interest on their medium and long-term external debt alone. When the amortization costs for these debts are added (about $63 billion) the total cost of debt service rises to $97 billion, an increase of 28 per cent over the $75 billion LDC debt service cost in 1980.

Adding to the difficulties created by this rising debt service burden is the recent precipitous fall in commodity prices. Exports are the major source of foreign exchange needed by LDCs to meet their external obligations. Many LDCs are heavily dependent upon one or a few basic commodities for the bulk of their exports. Commodity export prices (excluding oil) have fallen an average of about 11 per cent so far in 1981 with some commodities such as coffee and cocoa showing particular weakness (Financial Digest—July 6, 1981).

The prospects for improved export earnings for the LDCs this year are less than bright. Low growth or recession in many of the industrialized countries—the principal customers for LDC exports—is expected to continue through the end of 1981 with sluggish recovery sometime next year. Hence, in addition to depressed export prices the volume of exports will show little growth this year either. At the same time, high energy and labor costs in the industrial countries assure a continuance of high prices for their exports to the LDCs.

The response of the LDCs to these problems has been clear. The level of international reserves of the LDCs fell from $86 billion at the end of 1980 to $82.4 billion at the end of March, 1981. Further, publicly announced medium-term Euro-credits extended to non-oil LDCs were running at an annual rate of about $38 billion in the second quarter of this year compared with $27 billion in 1980. The International Monetary Fund has also increased its lending activities utilizing its recently expanded financial resources.

Faced with the prospects of high import costs, high interest rates and deteriorating export earnings the LDCs can be expected to place heavy emphasis on their need for greater financial assistance at the forthcoming meeting in October. ■